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Title: Market Power Europe

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Abstract:

While the European Union's identity may have normative and/or other characteristics, it is fundamentally a large single market with significant institutional features and competing interest groups. Given these central characteristics, the EU may be best understood as a Market Power Europe that exercises its power through the externalization of economic and social market-related policies and regulatory measures. Such an exercise of power, which may occur as intentional or unintentional behaviour, suggests the EU is fully capable of using both persuasive and coercive means and tools to influence international affairs. By scrutinizing the EU's identity, official documents and initial evidence, the article provides an analytical framework for understanding what kind of power the EU is, what the EU says as a power and what the EU does as a power.

Key words: European Union, externalization, external relations, market power, power, regulation

Since the 1970s, much scholarly attention has focused on what kind of power the EU is, what the EU says as a power, and what the EU does as a power. These ‘EU as a power’ debates have been challenging and contentious because of the unique nature of the EU as an actor in the international system. This uniqueness has led scholars to generate various competing labels for the EU as a power. For example, in his discussion of civilian power, Orbie provides a list that includes gentle power, superpower, quiet superpower and middle power (2008, 2).¹ Perhaps the liveliest debate in this rich literature revolves around Normative Power Europe (NPE), which moved the conceptual understanding of the EU as a power beyond the dichotomy of military power and civilian power. According to NPE, ‘the most important factor shaping the international role of the EU is not what it does or what it says, but what it is’ (Manners 2002, 252). What the EU is—a particular identity with a normative basis—makes it different from other actors in the international system. This influential formulation has led to a number of scholars agreeing that ‘...we may best conceive of the EU as a “normative power Europe”’ (Manners 2002, 235).

While this is an attractive premise, other important factors may contribute to what the EU is, meaning the EU’s identity may follow from a different basis. This article asserts that the EU need not necessarily be preconceived—at least not for analytical purposes—as a particular or different normative identity in order to understand it as a power. Rather, because the EU is, at its core, a market, it may be best to conceive of the EU as a Market Power Europe (MPE). It is worth clarifying at the outset that conceptualizing the EU as MPE is not intended to portray it as an exclusively neo-liberal and capitalist actor. Although MPE may seem to highlight such pro-market aspects of the EU’s identity, it also emphasises the importance of

interventions in the market via economic and social regulation. The conceptualization, therefore, sits comfortably with the co-existent economic and social agendas of the EU. By covering both of these agendas, the conceptualization is not intended to promote any particular normative claims about what the EU should be or how it should act as MPE.

Conceptualizing the EU as MPE requires a degree of analytical reductionism to ascertain the fundamental basis of the EU's identity. The EU's identity, both historically and presently, is crucially linked to its experience with market integration. The single market provides the material existence of the EU as an MPE that externalizes its economic and social market-related policies and regulatory measures. The single market has institutional features that help to determine the roles and interactions of various actors and provide the EU with considerable regulatory capacity for externalizing policies and regulatory measures. The single market also operates as an arena in which interest contestation helps to determine the likelihood of the EU intentionally and unintentionally exercising its power in international affairs.

While such an approach may be provocative, this article develops the concept with the intent of being empirically accurate and theoretically productive. Empirically, the notion of MPE contributes to the contemporary debates over the EU as a power by focusing on the context within which the EU is already often and readily recognized by other actors in the international system. The approach incorporates the exercise of power vis-à-vis public *and* private actors and draws attention to the role of coercion in the exercise of power. Theoretically, the conceptualization reveals the most important factors and actors that account for the EU as a power and identifies avenues for generating testable hypotheses and new research. While the EU as a power debates stand as a distinct contribution to our

understanding of the EU in international affairs, a growing body of comparative and international political economy literature—which is used below to develop the characteristics of MPE—is typically reticent to problematize explicitly the EU as a power. This project is, therefore, inspired by a belief that various strands of research have not yet fruitfully communicated with each other. The conceptualization advanced herein also reflects and encourages a broader understanding of what is meant by foreign policy. Beyond traditional security and defense policy, the EU's other policy areas have considerable external aspects and effects. In so far as these policies are linked to efforts at externalization (eg, foreign economic policy, foreign environmental policy), they contribute in decisive ways to the EU's foreign policy and its exercise of power in international affairs.

The article proceeds in the following manner. The next section elaborates different bases of identity (what the EU is) upon which the conceptualizations of NPE and MPE rest. The third section develops the three characteristics of the EU's identity that provide the foundations for MPE. The fourth section discusses the variables, subjects, targets and tools related to MPE. The fifth section explores the empirical record of MPE, focusing on EU strategies (what it says) for externalization and identifying initial evidence (what it does) deserving of further investigation. The final section summarizes the argument and encourages further theoretical and empirical research on the EU as MPE.

BASES OF EU AS A POWER

The EU is a power that can and does use its market and regulatory strengths to externalize internal policies. Central to this argument is an assertion that the EU's identity provides an important basis for its power. To specify the assertion, this

section begins by focusing on NPE as a prominent scholarly contribution to the relationship between what the EU is and its power.

Basis of Normative Power Europe

The conceptualization of NPE emerged from the debates associated with civilian power (Duchêne 1972) and has generated a decade's worth of contributions to our understanding of the EU as a power. Manners argues that the EU, due to 'its particular historical evolution, its hybrid polity, and its constitutional configuration', has a 'normatively *different* basis' for its external relations (2002, 252). This different normative basis or identity of the EU—not what it does or says—is the most important factor for determining the EU's role in international affairs.

According to the initial formulation of NPE, the EU's identity includes five core and four minor norms that have developed through a 'series of declarations, treaties, policies, criteria and conditions' (Manners 2002, 242). By projecting these collective norms in various ways, the EU is able to shape the identities of non-members and change their perceptions of what is 'normal' in international relations. The various ways through which NPE projects its norms include contagion, informational diffusion, procedural diffusion, transference, overt diffusion, and the cultural filter. These projection mechanisms, which may include both intentional and unintentional exercises of power, are notable for their 'relative absence of physical force' (Manners 2006, 184).

While the projection mechanisms do not exclude coercion or a role for material incentives, NPE tends to emphasise the need for persuasion and other non-coercive actions. The emphasis arises because the projection of norms needs to be normatively justified and 'if normative justification is to be convincing or attractive

then the actions taken must involve persuasion, argumentation, and the conferral of prestige or shame' (Manners 2011, 235).² The projection of norms is also likely to be more 'normatively sustainable' if it involves these three types of action 'rather than coercion or solely material motivations' (Manners 2009, 792).

This article accepts that particular core and minor norms may contribute to the EU's identity. But if the EU's identity has an important alternative basis—as the result of its consistent historical experience and current presence—it may be best to conceive of the EU as a different type of power that exercises its power in different ways.

An Alternative Basis of Power

The EU has always been an experiment at market integration. Even if it may have been initiated as cooperation for confidence building, it has consistently been a market-integration undertaking, with limited forays into defense integration. The focus of integration in 1951 was the coal and steel sectors, while the 1957 Treaty of Rome expanded the experiment to market integration more broadly. As an economic bloc with a common external tariff, the EU's market also necessarily had an external dimension. Thus, the common market and the common commercial policy served as original and essential building blocks of European integration and EU identity. Even during the 1970s 'Eurosclerosis', the EU was still first and foremost an experiment in market integration, as witnessed by important legal decisions like *Cassis de Dijon*.

The 1986 Single European Act (SEA) propelled the market integration experiment forward and helped to reaffirm and bolster this identity. According to Young, 'The success of the single market programme has been such that many authors see it as a defining feature of the EU' (2006, 376). While the EU has always

been a prominent experiment at market integration, it makes even more sense following the SEA to think of the EU's identity as linked to its large regulated market. Indeed, the EU now considers itself an important international actor and shaper of globalization due to the collective economic weight of its single market (Commission 2010, 2007, 2006, 2001). According to Sapir, 'This way of considering the EU is new. As recently as twenty years ago, [the EU] was primarily envisaged as a regional integration experiment among a relatively small number of participating countries' not necessarily an important international actor and shaper of globalization (2007, vii-viii). The EU, therefore, has evolved from being a regional market integration experiment into the comprehensive and capable international market power that it is today. The EU's own collective awareness of this evolution helps to underline and reinforce its identity as MPE.

Emphasizing the market basis of the EU's identity and its external implications is not entirely dissimilar from earlier conceptualizations of a capitalist superpower (Galtung 1973) or a trading state (Rosecrance 1986), which prioritized the economic orientation of powerful actors. Likewise, such an emphasis may resemble NPE's core norm of liberty (Manners 2002, 242), which may be interpreted to include market freedom. However, unlike these previous formulations, MPE includes a prominent role for market *interventions* via economic and social regulation. Such market interventions act as constraints on the capitalist superpower or trading state as well as NPE's market freedom. In addition, the alternative basis for the EU's identity as MPE is explicitly linked to three important characteristics, which are introduced in the next section.

THE CHARACTERISTICS OF MARKET POWER EUROPE

The alternative basis for the EU's identity as MPE informs three interrelated and mutually-reinforcing characteristics: material existence, institutional features and interest contestation. Focusing on these characteristics advances our understanding of the EU as a power by considering the EU's position in its international environment and identifying the institutions and actors (and relationships among them) that contribute to its power. Likewise, the characteristics provide an analytical framework for theorizing and empirically testing the EU's externalization of its market-related policies and regulatory measures.

EU as Single Market

At a base level, the European single market represents the EU's *material existence* and the most salient aspect of its presence in the international system (Allen and Smith 1990). Comparative economic figures reveal the importance of the EU's market as a characteristic of its identity. The EU today exists as the largest advanced industrialized market in the world. According to the Commission, the EU is 'the world's biggest trading bloc and leading destination for foreign direct investment' (2010, 7). This significant comparative economic power allows Van Rompuy to claim that 'Even with only 7 percent of world population we still generate almost 22 percent of the world's wealth. (This is compared to about 21 percent for the US, 11.5 percent for China and 4.7 percent for India.) Together, we are the first commercial power in the world, bigger than the US, China or Japan' (2010, 5).

The size of the EU in the global economy is, therefore, a significant factor that studies of the EU as a power should consider seriously. But how can the EU's size influence the externalization of market-related policies and regulatory measures? As a major economic power with a large single market, the EU is capable of externalizing

various internal policies, in particular its regulatory standards (Vogel 1995). It exercises this power specifically through the relative size of its market.³ This power is felt by all other actors in the international system, although it may have less an effect on other relatively large economic powers.

As Drezner argues, market size is important for two reasons related to the externalization of internal regulations: 1) Market size affects the material incentives facing governments when choosing whether to coordinate regulatory standards and 2) market size affects actor perceptions over outcomes. On the issue of material incentives, ‘A sufficiently large internal market drastically reduces a government’s incentive to switch its standards, creating a set of expectations that encourages other actors to switch their regulatory standards’ (2007, 32). While this effect may occur unintentionally, it may also occur intentionally through economic coercion because market powers ‘can use the threat of complete or partial market closure to force recalcitrant states into switching their regulatory standards’ (2007, 32). Regarding the effect on others’ perceptions, market powers ‘by dint of their market size can alter the beliefs of other actors over the likelihood of possible outcomes. Their standards act as an attractor, causing other actors to converge to their preferences’ (Drezner 2007, 32-33). Again, this effect may occur intentionally or unintentionally. The EU, therefore, by being a comparatively large market, is able to exercise its power in the international system by affecting material incentives and others’ perceptions over possible outcomes.

EU as Regulatory Institution

In addition to material existence, the conceptualization of MPE takes into account the *institutional features* of the EU. These features determine which official

actors contribute to MPE and the rules under which they operate. Reflecting internal institutional developments, the EU has been referred to as a ‘regulatory state’ that pursues and prioritizes governance through rules and regulations (Majone 1994, 1997). In this capacity, the EU generates a considerable amount of economic and social regulation, which can either liberalize or restrict market activity, and which can also have important external effects.

If the EU is a regulatory state, MPE must take into consideration the policymaking processes and decision-making rules for issuing regulatory measures, which can vary depending on the market-related policies in question. When scrutinizing these processes, MPE must also consider the possible importance of unity/diversity among EU Member States (Fioretos 2010) and the roles played by its different institutions—eg, European Commission, European Parliament, Council of Ministers, European Court of Justice—in the rule-making process. Likewise, important roles are played by various networks of national regulators and EU-level regulatory agencies (Coen and Thatcher 2008, Eberlein and Newman 2008, Eberlein and Grande 2005). Given this large number of actors, the MPE conceptualization acknowledges that the EU constitutes itself differently at different times. Analyses of MPE should, therefore, consider the ways in which variation across decision-making rules for issuing and enforcing regulatory measures determine which actors contribute, at any given time, to the external dimension of the regulatory state that is the EU.

As a regulatory state, the EU is a generator of standards to which other actors may converge. As MPE, the EU’s identity incorporates its various institutional qualities and also depends importantly on its institutional ability to externalize regulatory measures. To understand this institutional ability, it is useful to look at

MPE's regulatory capacity. According to Bach and Newman, high levels of regulatory expertise, coherence and sanctioning authority are preferable for externalizing regulatory measures. *Regulatory expertise* is reflected in a 'staff with sufficient training to identify areas of concern and to make policy demands on third countries. Comprehensive budgetary resources, years of experience, and a high level of professional staffing thus all demonstrate regulatory expertise' (2007, 831). *Regulatory coherence* is reflected in the extent to which 'regulatory authority has been delegated to a specific regulatory body that has authority to shape and enforce market rules' (2007, 831). Without such a delegation—which may vary depending on the institutional rules in different policy areas—and when regulatory authority is dispersed, regulators' commitment to monitoring and enforcement is less credible. Under such conditions, the regulators 'cannot clearly articulate the demanded [externalization] strategy', which gives external actors 'little incentive to adjust their domestic rules' (2007, 831-32). *Sanctioning authority* is the statutory authority to impose costs on third parties for non-compliance. Such authority is typically included in implementing legislation and again may vary across policy areas. Examples of sanctioning authority include banning market entry, imposing fines or exacting reputational costs (2007, 832), all of which may be directed at individual non-state actors (eg, firms) and imply coercion as an important part of externalization.

Understanding the EU as a regulatory state helps to emphasise the importance of internal rules—including the decision-making rules that determine which official actors are involved—as a central characteristic of MPE. Because the EU has relatively high levels of regulatory expertise, coherence and sanctioning authority, it is able to exercise its power in the international system. The mere existence of these three institutional components of regulatory capacity may provide a foundation for

unintentional externalization, but when put into action, they clearly bolster MPE's intentional efforts at externalization.

EU as Interest Contestation

An understanding of the EU as MPE also takes into account the important role played by competing interest groups in the European single market. Because the EU is a regulatory institution that is open to public consultation and influence, it serves as an arena in which various groups compete for regulation that serves their interests (Coen and Richardson 2009). This *interest contestation* adds a third characteristic to the EU's identity and helps to determine the likelihood of MPE exercising power in the international system.

According to the literature on regulatory politics, regulatory outcomes can vary depending on the type of regulation being developed. One basic variation is between economic regulations, 'which govern entry to and competition within particular sectors', and social regulations, 'which are aimed at addressing negative externalities (such as pollution) and information asymmetries (e.g. consumer protection)' (Young 2006, 377). The EU's different types of economic and social regulation distribute costs and benefits differently throughout society and can result in different sets of incentives for different types of interest groups.

The contestation among these different interest groups helps to determine internal regulatory outcomes but also plays a role in MPE's externalization. As with previous work on environmental and trade policy, MPE's strategy for externalizing regulatory standards may be determined by the relative influence of specific interest groups (Dür and DeBièvre 2007, Falkner 2007, Vogel 1995). Given the externalizing nature of MPE, the role of foreign interest groups must also be incorporated into

analyses of interest group contestation. This interest group contestation interacts with the institutional features noted above in so far as the EU regulatory institutions and actors become targets for domestic and foreign interest group lobbying.

How then does interest contestation influence MPE's externalization of market-related policies and regulatory measures? Such contestation matters for MPE because interest groups may push specifically for the externalization, whether coercive or non-coercive, of internal regulation. As external actors observe the internal contestation and anticipate outcomes, the EU's unintentional MPE may increase. When pro-externalization interest groups begin to influence policymaking and regulatory outcomes, their activity bolsters the EU's intentional MPE. The building of internal coalitions is inherently contested as groups compete with different interests in relation to the internal regulatory measure and its externalization. This process of coalition-building is complicated further by the inclusion of foreign interest groups and private actors which may have considerably different interests in relation to the externalization of specific EU economic and social regulatory measures.

When pro-externalization coalitions form and become more influential than anti-externalization coalitions, this interest-based support may drive forward the EU's externalization strategies more so (and more precisely) than its normative identity and helps to account for MPE's ability to exercise power. The contestation of coalition-building also explicitly incorporates private actors into the understanding and analysis of MPE beyond that typically provided by other conceptualizations of the EU as a power.

The combination of these three important and interactive characteristics—relative market size, institutional features and interest group contestation—provides the EU with the basis for its identity as MPE. Just as Manners argues that the EU has

a normative basis that ‘predisposes it to act in a normative way’ (2002, 252), so too this article argues that the existence and interaction of these three characteristics predisposes the EU to act as MPE.

THE EXERCISE OF MARKET POWER EUROPE

The three characteristics that help to form what the EU is as MPE can operate as independent variables that influence the externalization of market-related policies and regulatory measures. As these three independent variables increase—growth in market size, expansion of regulatory capacity, and pressure from pro-externalization coalitions—it can be hypothesized that so too will the dependent variable of EU externalization increase. However, the precise relationships remain open to further theorizing and empirical testing as external pressures and certain combinations of institutions and actors may actually reduce the likelihood of externalization. Because these independent variables are interactive, empirical testing will also need to consider the extent to which the various actors and institutions can be analytically separated across different cases and different times.⁴

Central to MPE’s exercise of power, ‘externalization’ can be understood and explored in two stages (DeSombre 2000). The first stage of externalization occurs when the institutions and actors of the EU attempt to get other actors to adhere to a level of regulation similar to that in effect in the European single market or to behave in a way that generally satisfies or conforms to the EU’s market-related policies and regulatory measures.⁵ The *subjects* of externalization, therefore, are market-related policies and regulatory measures normally generated through an internal process of rule-making. Because the process is politically contested, the resulting policies or measures are often compromises that reflect bargains among numerous public and

private actors, which may not be consistent with the collective core and minor norms of the EU. Such subjects facilitate reliable and robust analysis because the tools, standards, guidelines and objectives in these policies and measures are typically specified in legal and technical documents, making them and their externalization empirically identifiable and traceable.

The *targets* of externalization typically include various non-EU public and private actors, such as states, international and regional organizations, and non-state actors. The second stage of externalization requires these non-EU targets actually to adhere to said level of regulation or to behave in said way. The two-stage process, therefore, requires consideration of both attempts to externalize and actual success in doing so, analysis of which is beyond the scope of this short article and may require considerably different theoretical and methodological approaches.

The exercise of power through externalization can be understood as primarily intentional behaviour. It is important to reiterate that the EU's efforts at externalization are not merely happenstance; as MPE, the EU has the intention to externalize its market-related policies and regulatory measures. While intentionality is a frequent part of externalization, there may also be an unintentional dimension of MPE's externalization. As noted above, the EU may unintentionally externalize its policies and measures simply because the size of its internal market makes its standards attractive to outsiders. A deeper exploration of the unintentional exercise of MPE, while important, is outside the scope of this study and remains for further research. Therefore, while the remainder of this study focuses on intentional behaviour, it should be noted that such an emphasis only underestimates the actual exercise of MPE.

If the EU is externalizing its market-related policies and regulatory measures, MPE must include an understanding of the means and tools through which this power is exercised in the international system. Regarding *means*, different conceptualizations of the EU as a power identify various mechanisms and distinguish them as either persuasive or coercive. While persuasive and coercive means both imply the intentional exercise of power, coercion is not typically considered part of the soft power that is frequently (but not exclusively) emphasized by other conceptualizations. Although this article shares the common assertion that there is a relative absence of physical force in the EU's exercise of power, it argues that by the very nature of what it is—a relatively large market with significant institutional features and competing interest groups—the EU is likely to exercise intentionally its power via persuasive and often coercive means.

Before continuing the discussion of persuasion and coercion, it is worthwhile considering what is meant by the terms. Smith provides a useful distinction: 'Coercion involves threatening or inflicting "punishment"... persuasion entails cooperating with third countries to try to induce desired internal or external policy changes' (2003, 22). That said, it is difficult to differentiate between coercion and persuasion because individual actions can often include both coercive and persuasive elements. Likewise, a target may feel coerced even when the action is intended to be persuasive. Given these pitfalls and because the MPE conceptualization does not depend upon the persuasion-coercion distinction, this article simplifies the two concepts as positive and negative conditionality and focuses on various *tools* of MPE.

According to Smith, positive conditionality 'entails promising benefit(s) to a state if it fulfils the conditions' while negative conditionality 'involves reducing, suspending, or terminating those benefits if the state in question violates the

conditions' (2003, 57). The tools of externalization associated with positive conditionality include reaching trade, cooperation and association agreements; reducing tariffs and quotas; granting preferences; providing aid; and extending loans. The tools of externalization associated with negative conditionality include implementing embargoes and boycotts; delaying, suspending and denouncing agreements; increasing tariffs and quotas; withdrawing preferences; reducing and suspending aid; and delaying successive loans (Smith 2003, 60). These tools of positive and negative conditionality, which can be found in various agreements to which the EU is party, both imply intentionality.

Although a useful starting point, the tools of MPE also cover actions beyond conditionality. Such tools may include offering membership through the enlargement process, using incentives and disincentives to push EU standards in multilateral settings, and threatening and actually bringing states to international dispute settlement mechanisms. In addition, positive and negative conditionality represent primarily formal governmental actions that do not tend to include EU tools directed specifically at non-state actors, such as individual firms. Following from the idea of externalization advanced in this article, the EU's intentional actions are not directed exclusively at states. Externalization also includes regulatory standards which foreign firms must follow if they wish to operate in the European single market. Failing to abide by these standards may lead to punishment via the implementing regulations of MPE's sanctioning authority. Here arises another difference from other conceptualizations of the EU as a power, which typically do not make explicit the analysis of EU tools that are based largely in internal regulations and directed at non-state actors. The EU as MPE, therefore, exercises its power of externalization through various tools—such as the use of positive and negative conditionality, international

legal instruments and internal regulatory measures—in its relations with both states and non-state actors.

THE EVIDENCE OF MARKET POWER EUROPE

The evidence supporting the conceptualization of MPE is impressive. Given the abundance of data, this article cannot undertake comprehensive and systematic empirical testing of the relationships introduced above. Rather, the article employs two ways in which to organize evidence of the EU's efforts to externalize market-related policies and regulatory measures. First, the article investigates *what the EU says*—the extent to which the EU itself articulates strategies for acting as MPE. By looking at the strategies presented in official documents, the analysis is most likely to reveal evidence of intentionality and, again, underestimate any unintentional impact of MPE. Second, the article investigates *what the EU does* by considering initial evidence from official documents and briefly exploring the EU's exercise of MPE in trade policy.

What the EU Says—Strategies for MPE

Scrutinizing EU documents and communications is instructive because they are the result of public consultation, in which not only the official actors of the EU have input, but also various interest groups submit comments. While not legally binding rules, the documents investigated herein are indicative of what the EU says about the exercise of its power because they detail the broad strategies to be pursued. How the EU implements these strategies (what it does) is a separate issue.

In 2001 and 2006, the EU issued strategies that began to reflect an awareness of MPE. The 2001 contribution to establishing the EU's externalization agenda came

in the form of a working group report on *Strengthening Europe's Contributions to World Governance* that 'analyses governance beyond the EU's borders with an emphasis primarily on First Pillar themes' (2001, 3). This report presented the EU as an active advocate of global governance and international policy convergence in the market-related areas associated with MPE. In 2006, the Commission released its communication on *Global Europe—Competing in the World*, which focused heavily on the EU's external trade agenda, especially in relation to the EU's market-related policies. The document contains a section on 'opening markets abroad', which identifies priorities such as non-tariff barriers, access to resources, and new areas of growth. Conforming to the logic of MPE, the document asserts that 'We must play a leading role in sharing best practice and developing global rules and standards' (Commission 2006, 7).

In 2007, the EU more clearly indicated its role as MPE with the release of its Single Market Review (SMR). In the review, the EU argues that it is 'being looked upon as the global standard-setter' (2007a, 7). The EU's strategy was based upon three objectives, which reflect the general logic of MPE and point to the need to pursue externalization of economic and social regulation: 1) expanding the competitive space for European firms, 2) expanding the regulatory space of the single market, and 3) actively ensuring that European citizens enjoy better safety, health and environmental standards, lower prices, and greater choice.

The SMR was accompanied by a Commission Staff Working Document, which provides further evidence of the EU's capacity and intentional strategy to act as MPE. Regarding the EU's market size, the document notes that 'the rapid expansion of the EU to 27 Member States with a total of almost half a billion consumers has turned Europe into the world's biggest import market' (2007b, 6). This large import

market clearly supports the conceptualization of MPE, with the document clarifying ways in which its size influences other actors: ‘for many companies around the world, complying with EU rules has become both a prerequisite and an asset to access key markets. Many global companies that produce goods for the EU market will also apply the EU’s standards elsewhere as they can assume that in many instances their products will then be accepted more easily in view of the resulting high quality’ (2007b, 6). While an apparently unintentional side-effect of the large market, the EU can use this incentive as an important intentional component of its externalization strategy.

Regarding the EU’s regulatory coherence and sanctioning authority, the European single market has led to ‘the creation of a modern and innovative regulatory and supervisory framework in many areas’ (2007b, 5). Regarding regulatory expertise, the document asserts that the EU ‘has gathered much experience on how to best cope with differing regulations and draw on the best features of different regulatory traditions: this gives European regulators an edge when dealing with international standards’ (2007b, 6). Finally, regarding interest contestation, the SMR and the accompanying working document frequently emphasise the need for the European single market to be responsive to and create opportunities for citizens and to empower consumers and small- and medium-sized enterprises. Thus, citizens, consumers and firms all contest their respective interests within this ‘responsive’ European single market process.

The SMR also identifies a number of ways forward, which reflect its objectives as MPE. For example, the working document highlights the need to ‘expand the regulatory space’ by ‘promoting, globally and with like-minded countries, supervisory and regulatory convergence and equivalence, in line with EU rules’

(2007b, 9). Such efforts to expand the regulatory space help to increase the EU's regulatory expertise and clearly reveal the EU's desire to externalize its regulatory measures. The EU also strongly asserts its desire to continue playing a 'leading role' in international rule-making bodies by 'pushing for the adoption of high quality standards and putting these in place as early movers to provide a competitive edge' (2007b, 11). Such instrumental efforts to push standards as an early mover in order to obtain a competitive edge support the claim that MPE intentionally strives to externalize its regulatory measures.

In 2010, the Commission issued its next significant strategy for the exercise of MPE over the next decade: *Europe 2020*. Demonstrating ambitious intentionality, the strategy argues that 'the EU must assert itself more effectively on the world stage, playing a leading role in shaping the future global economic order through the G20, and pursuing the European interest through the active deployment of all the tools at our disposal' (2010, 21). The EU also notes the importance of exercising its power both multilaterally and bilaterally: 'Acting within the WTO and bilaterally in order to secure better market access for EU business... and a level playing field vis-à-vis our external competitors should be a key goal' (2010, 21).

In another section, *Europe 2020* notes the integral role of various interest groups: 'The impact of these challenges will differ from sector to sector, some sectors might have to "reinvent" themselves but for others these challenges will present new business opportunities. The Commission will work closely with stakeholders in different sectors (business, trade unions, academics, NGOs, consumer organisations)' (2010, 15). The EU clearly intends to solicit input from a wide variety of groups interested in the implementation of its *Europe 2020* strategy. The extent to which pro-

externalization coalitions emerge among these various interests will help to determine the exercise of MPE.

These official documents—especially the SMR and *Europe 2020*— and the externalization strategies therein provide clear evidence of an EU ambition to be MPE. In addition to indicating what the EU says as MPE, the documents also demonstrate the important role of all three characteristics that comprise what the EU is as a power.

What the EU Does—Initial Evidence

While the above documents lay out broad strategies for the EU to act as MPE, initial evidence reveals some success at externalizing both economic and social agendas. This evidence, discussed to varying degrees in the official documents, helps to show what the EU does as MPE. For example, the 2007 SMR identifies a number of cases in which the EU has acted as an international standard-setting MPE, including product safety, food safety, environmental protection, public procurement, financial regulation, and accounting. According to the Commission, EU rules in carbon emissions trading, aviation safety, and chemicals are being ‘adopted across the world’, and EU competition policy has been used to challenge ‘cartels, anti-competitive mergers and abuses of a dominant position affecting European consumers and businesses, regardless of the nationality of the companies concerned’ (2007a, 7). The adoption of the GSM standard for mobile telephony is cited as ‘one of the best examples of the export of European regulatory approaches, European standards and European technology’ (2007b, 6).

While a great number of other cases and policy areas provide evidence of MPE, a brief look at trade policy illustrates how the EU intentionally attempts to

externalize its regulatory measures and operates as MPE. In accordance with the characteristics of MPE's identity, the relative size of the single market provides the EU with considerable leverage to externalize its internal regulatory measures through trade. Internal regulation is the result of interactions among the institutional rules and official actors that give the EU regulatory capacity as well as contestation among competing interest groups. These various actors also help to determine whether and which internal regulatory measures the EU will attempt to externalize through trade.

The externalization of internal regulatory measures can take place if, for example, the EU attempts to include standards in bilateral and multilateral trade agreements (ie, positive conditionality). Even if the EU employs the tools of positive conditionality with the intent of persuading changes in behaviour, the third parties in question may feel they have been coerced into changing their behaviour because they have no alternative: they must agree to undesirable terms in trade agreements because they need access to the large European single market; and they must abide by the EU's relevant internal regulatory measures or they will be subject to sanctioning under the associated implementing legislation.

Foreign regulation can also create non-tariff barriers to trade, which the EU is able to identify as a result of its regulatory expertise and information from official and non-state actors via, for example, the Trade Barriers Regulation. Depending on the pressure exerted by these actors, the EU may bring an offending foreign non-tariff barrier before the World Trade Organization's (WTO) Dispute Settlement Mechanism (ie, negative conditionality). By doing so, the EU undertakes an intentional effort at externalization—an attempt to get the target WTO member(s) to comply with international trade rules in a way that generally satisfies or conforms to the EU's market-related policies and regulatory measures. Bringing a foreign regulatory

measure or any perceived violation of international trade rules to the WTO's Dispute Settlement Mechanism is a clear instance of the EU using coercion to adjust the behaviour of other actors in the international trading system.

While evidence of MPE abounds in trade policy, further analyses should include all of the EU's market-related policies and regulatory measures, as long as they include tools and elements—whether intentional or unintentional, positive or negative—of externalization. The purview of MPE analyses is, therefore, extensive and may cover all areas related to market regulation, including but not limited to investigations of agricultural policy, competition policy, consumer policy, development policy, energy policy, enlargement policy, environment policy, fisheries policy, migration policy, monetary and financial policy, labour and social policy, neighbourhood policy, and trade policy. The extent to which the EU attempts and is successful at externalizing all these policies and associated regulatory measures likely depends on the size of the EU's market, its institutional features and the contestation of interest groups.

CONCLUSIONS

This article asserts that empirical developments and theoretical advances have brought us to the point where we should reconsider what the EU is and conceptualize it as MPE, a powerful actor that actively engages in international affairs through the externalization of its economic and social market-related policies and regulatory measures. Such a reconsideration does not depend upon an analytical preconception that the EU is a particular, different or even unique actor in the international system.

Empirically, the EU has evolved from its origins as a market integration experiment into the world's foremost economic bloc. Especially since the SEA, the

EU itself has increasingly developed strategies (what it says) and undertaken efforts (what it does) to exercise MPE through the externalization of its economic and social agendas. To explore further the propositions of MPE, comprehensive and systematic empirical testing of the EU's intentional and unintentional attempts and success at externalization is needed.

As a conceptualization, MPE is not intended to serve as a full-blown explanatory theory. Rather it offers an understanding of the EU that provides essential assumptions for guiding research on the EU as a power. By introducing insights from the comparative and international political economy literature to the EU as a power debates, the article elaborates fundamental characteristics of the EU's identity. The ways in which these characteristics influence MPE deserve further theorizing and empirical work on the expected relationships among them and the likelihood of externalization.

Because the EU is an international actor with competing internal agendas, MPE does not begin with an attempt to elaborate or explain the sum of the EU's official external relations. Rather, MPE is intentionally reductionist and refocuses the debate over the EU as a power squarely on the areas in which the EU happens to be often and readily recognized by other actors: market-related policies and regulatory measures. By focusing on MPE, we may not get an immediate sense of the EU's ability to use physical force via its intergovernmental security and defense policy. However, we do get a more realistic sense of the EU as a power and the ways in which it most actively and consequentially influences today's international system.

As an analytical starting point, MPE assumes that a reconsideration of identity is important when conceptualizing the EU as a power. As with NPE, the EU's identity as MPE is what it is, instead of what it does or says. However, MPE differs from NPE

by arguing that the EU's identity is not a particular set of collective norms but rather a comparatively large regulated market with institutional features and interest group contestation. These three primary and explicit characteristics are central to the analysis of the EU as a power because they condition the choices of when, where and how to exercise MPE. They also predispose the EU to act as MPE and help to explain why the EU often exercises power through coercion.

Ultimately, the best way to evaluate NPE versus MPE may be to determine whether the EU is more likely to influence the behaviour of others through the projection of its core and minor norms or the externalization of its market-related policies and regulatory measures. However, the point of MPE is not to inspire analytical intolerance of norms-based and other approaches, but rather to encourage new avenues of research into the EU as a power and the possible compatibility of other conceptualizations with market power insights. For example, in which ways do normative justifications interact with material incentives? Under what conditions might norms contribute to the politically contested formulation of EU regulatory measures and their externalization? To what extent does market power interact with the ability to use physical force? With MPE as a starting point for conceptualizing what the EU is, says and does, we can begin answering these questions while rebuilding our understanding of the EU as a power and concentrating research on the implications of market power for the potential use of force (military power) and projection of norms (normative power).

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¹ Among others, the EU has also been labelled an ethical power (Aggestam 2008), fragmented power (Sapir 2007), realist power (Zimmermann 2007), conflicted trade power (Meunier and Nicolaïdis 2006) and transformative power (Leonard 2005).

² This is not the same as equating normative power with ‘force for good’, a common problem that Manners seeks to avoid (2011, 243).

³ For more on the importance of and issues related to market/economic power, see Newman and Posner (2011).

⁴ For recent examples of research that provide evidence and broadly conform with the conceptualization of MPE, see the *Journal of European Public Policy* special issue edited by Jacoby and Meunier (2010) and the *Review of International Political Economy* special issue edited by Farrell and Newman (2010).

⁵ For a similar definition, see DeSombre (2000, 7).

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